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REPORT TO THE CONGRESS

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Audit Of Payments From
Special Fund To
Lockheed Aircraft Corporation
For C-5A Aircraft Program
During The Quarter Ended
September 30, 1971

B-162578

Department of Defense

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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NOV. 17, 1971



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-162578

To the President of the Senate and the
Speaker of the House of Representatives

This is our second report on the audit of payments from the special fund to Lockheed Aircraft Corporation for the C-5A aircraft program. This report covers the quarter ended September 30, 1971.

This audit was made pursuant to section 504, Public Law 91-441, which authorized \$200 million of interim funding for the C-5A aircraft program to be paid through a special bank account. These funds may be expended only for the reasonable and allocable direct and indirect costs incurred by Lockheed on the C-5A aircraft program. The law also provides that these funds shall not be used to reimburse Lockheed for inter-company profits, bid and proposal costs, independent research and development costs, other unsponsored technical costs, and depreciation and amortization expenses. Under the law the General Accounting Office is required to audit payments from the special bank account on a quarterly basis and to submit a report to the Congress not more than 30 days after the close of each quarter.

Since June 16, 1971, the Air Force paid Lockheed \$125,166,211 from the special bank account. (See appendix for the cumulative expenditures through September 30, 1971.) The amounts deposited in and withdrawn from the special fund and the special bank account for the quarter ended September 30, 1971, were as follows:

	Special bank <u>account</u>	\$200 million <u>fund</u>
Balance as of July 1, 1971	\$ 1,002,503	\$178,594,489
Deposits	104,645,816	
Withdrawals		104,645,816
Labor	\$19,066,763	
Overhead	31,838,554	
Material and other charges	54,489,940	
Intercompany transactions:		
Charges \$4,359,211		
Credits -4,991,265	<u>-632,054</u>	
	<u>104,763,203</u>	
Balance as of September 30, 1971	\$ <u>885,116</u>	\$ <u>73,948,673</u>

LABOR COSTS

During the quarter ended September 30, 1971, the Air Force paid Lockheed \$19,066,763 for labor costs incurred. Due to the shortage of wing assemblies created by a work stoppage at a subcontractor's plant,

the Lockheed-Georgia Company suspended, effective September 20, 1971, essentially all C-5A aircraft assembly operations and temporarily laid off about 2,400 employees. The subcontractor resumed work on October 18, 1971, and expected to begin delivery of wing assemblies early in November.

Because of the disruption of production due to the temporary lack of wing assemblies and the approaching completion of subassemblies for all C-5A aircraft, we are giving increased attention to the reasonableness of labor charges.

OVERHEAD EXPENSES

During the quarter overhead expenses totaling \$31,838,554 were paid to Lockheed from the special bank account on the basis of negotiated provisional overhead rates. Lockheed and the Air Force negotiate provisional overhead rates for use in costs reimbursement contract billings. Actual overhead costs are to be negotiated as of December 26, 1971, the end of the company fiscal year.

The provisional overhead rate was reduced to exclude those costs which are unallowable under Public Law 91-441. Such costs amounted to \$3,183,663 for the quarter ended September 30, 1971.

MATERIAL AND OTHER CHARGES

During the quarter material and other charges totaling \$54,489,940 were paid to Lockheed from the special bank account.

To ensure prompt payment to vendors, Lockheed is not reimbursed for amounts owed to vendors which have not been paid within 30 days. At September 30, 1971, \$885,116 had not been paid within 30 days, and this amount was deducted from the final reimbursement voucher for the quarter.

Intercompany transactions

During the quarter intercompany costs totaling \$4,359,211 charged to the special bank account were more than offset by intercompany credits of \$4,991,265. The credits represent the excess of amounts paid for delivered items plus progress payments for undelivered items over actual costs incurred prior to May 31, 1971, when the contract was converted to a cost-reimbursement type.

We noted that intercompany transactions were not being reconciled and processed for inclusion in reimbursement vouchers on a timely basis. Reconciliation of intercompany transactions essentially involves identifying and resolving differences between the records of the Georgia

company and other Lockheed companies. A Lockheed-Georgia Company official stated that about 81 percent of the amount involved had been reconciled as of October 4, 1971. Lockheed has agreed to intensify efforts to reconcile and complete the accounting for intercompany transactions.

SCOPE OF AUDIT

Our review was made at the Lockheed-Georgia Company, Marietta, Georgia; Lockheed Aircraft Corporation and Lockheed-California Company, Burbank, California; Lockheed Aircraft Service Company, Ontario, California; and Lockheed Electronics Company, Plainfield, New Jersey.

Our audit of labor costs included tests to determine whether those costs appeared reasonable and applicable to the C-5A aircraft program. In our review of overhead costs, we examined into the reasonableness of provisional overhead rates and the costs eliminated to comply with Public Law 91-441.

We reviewed selected material and other costs shown on reimbursement vouchers and traced the amounts to such documents as purchase orders, receiving reports, vendors' invoices, and work orders to determine the accuracy and propriety of the amounts paid. Our review of costs incurred on the C-5A aircraft program by other Lockheed companies was directed at testing the accuracy and allowability of labor, material, and overhead costs charged in intercompany billings. We reviewed also the Defense Contract Audit Agency audit of payments from the special bank account for labor, overhead, and material and other costs and tested the work performed.

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Our review revealed no payments to Lockheed Aircraft Corporation from the special bank account during the quarter ended September 30, 1971, that were contrary to Public Law 91-441. As indicated earlier in the report, however, we are giving increased attention to the reasonableness of the labor costs.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretary of the Air Force.



Comptroller General
of the United States

APPENDIX

TOTAL AMOUNTS DEPOSITED AND WITHDRAWN
FROM THE SPECIAL BANK ACCOUNT AND
\$200 MILLION FUND AS OF SEPTEMBER 30, 1971

		Special bank <u>account</u>	\$200 million <u>fund</u>
BEGINNING BALANCE AS OF JUNE 16, 1971 (note a)		\$ -	\$200,000,000
DEPOSITS		126,051,327	
WITHDRAWALS			126,051,327
Labor	\$23,860,659		
Overhead	38,755,521		
Material and other charges	67,593,406		
Intercompany transac- tions:			
Charges \$ 7,453,242			
Credits -12,496,617	<u>-5,043,375</u>	<u>125,166,211</u>	<u> </u>
BALANCE AS OF SEPTEMBER 30, 1971		<u>\$ 885,116</u>	<u>\$ 73,948,673</u>

^aDate of first payment from special bank account.